

## VALUE LINE INVESTMENT EDUCATION



The Most Trusted Name In Investment Research®



# How to Read a Value Line Report

In order to make the best use of your Value Line subscription, you'll want to understand our research reports and put them in context. This guide was designed to help you do just that. Referring to this guide in using our services to select your investments as well as for a source of interpretive analysis and historical information can assist you in spotting trends.

## I: GETTING STARTED

As a subscriber, you will receive three parts of *The Value Line Investment Survey*® each week. The three parts are: *The Summary & Index*, *Selection & Opinion*, and *Ratings & Reports*. Below we will describe each section and discuss some of the ways to use them.

## Summary & Index

We suggest starting with the *Summary & Index*. The front cover contains a Table of Contents, four important market statistics, and a list of all the industries we follow in alphabetical order with their current industry rank shown next to the name. The page number is to the right. The market statistics are found in four boxes. The first box (**A**) has the median of estimated price/earnings ratios of all stocks with earnings covered in *The Value Line Investment Survey*. The second box (**B**) shows the median of estimated dividend yields (total dividends expected to be paid in the next 12 months divided by the recent price) of all dividend-paying stocks in *The Value Line Investment*

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## Summary & Index

*Survey*. The third box (C) contains the estimated median price appreciation potential 3 to 5 years into the future for all the stocks in *The Value Line Investment Survey*, based on Value Line's hypothesized economic environment 3 to 5 years hence. The fourth box (D) contains the median appreciation potential to the midpoint of the 18-Month Target Price Range of all the stocks in the *Survey*. After reviewing those statistics, a fairly good picture emerges of how the Value Line universe is evaluated.

These screens are a good starting point for anyone seeking investment ideas or help in forming a strategy. The screens are also useful for investors looking for a list of stocks relevant to their specific strategies.

*Selection & Opinion* (S&O) contains Value Line's weekly economic and stock market commentary and investment ideas, along with one or more pages of research highlighting specific stocks or industries, and a variety of pertinent economic and stock market statistics. It also includes four model stock portfolios (Stocks with Above-Average Year-Ahead Price Potential, Stocks for Income and Potential Price Appreciation, Stocks with Long-Term Price Growth Potential, and Stocks with Above-Average Dividend Yields). A fifth model portfolio, for investors interested in Aggressive Growth, currently appears in the *Ratings & Reports* section. The *Selection & Opinion* provides valuable investment ideas and a good understanding of Value Line's outlook for the stock market and economy.

Every week subscribers receive a new Issue of *Ratings & Reports* containing approximately 120 or more company reports grouped by industry, and a smaller number of industry reports. The industry reports precede the reports on the companies in that same industry. Over the course

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of three months, revised reports on all covered companies and industries are issued.

## II: PLANNING AN INVESTMENT STRATEGY

When planning an investment strategy, it is important to consider a number of factors, including such aspects as your age, current financial situation, and risk tolerance. Of course, there are myriad other considerations, and our tools will help investors make well informed decisions when picking securities.

We have created a guide called *Planning an Investment Strategy* that you may wish to read before taking any portfolio action. As a quick summary, you should diversify your portfolio both across asset classes (e.g., stocks, bonds, and foreign securities) and within asset classes (i.e., owning a variety of stocks and bonds).

In addition, you do not have to manage every portion of your portfolio. Instead, you might hire someone else to handle the components that you do not have the desire or experience to oversee. For example, you could buy a diversified fixed-income mutual fund for the bond portion of your portfolio, while maintaining a collection of stocks yourself. The right mix of “outsourcing” and personal direction is an individual decision, but in the end you should create a portfolio that offers good returns at a level of risk you can tolerate.

Again, we encourage you to take the time to read through the *Planning an Investment Strategy* guide so that you can start your portfolio on a solid foundation.

## III: CREATING A LIST OF STOCKS FOR FURTHER RESEARCH

Once you have decided on your portfolio approach, you will begin selecting securities. There are many ways to use *The Value Line Investment Survey* to find the equities most appropriate for your goals. We include a number of stock screens in the back of each *Summary & Index* to assist our readers in narrowing the universe of stocks for further consideration.

The screens are updated weekly and cover a broad range of investment options, including Conservative Stocks, Highest Yielding Stocks, and Stocks with Highest 3- to 5-Year Appreciation Potential. A description of the screens is provided if the title of a screen is not self-explanatory. There are, of course, many more screens than the ones just mentioned; they are all available in the back of the *Summary & Index*. Using them will provide you with a more-focused and shorter list of companies to research.

For those who want more advice than a static screen, we have also created four model portfolios: Portfolio I (Stocks with Above-Average Year-Ahead Price Potential), Portfolio II (Stocks for Income and Potential Price Appreciation), Portfolio III (Stocks with Long-Term Price Growth Potential), and Portfolio IV (Stocks with Above-Average Dividend Yields), as well as an Aggressive Growth portfolio. These portfolios are overseen by Value Line analysts and are updated weekly in *Selection & Opinion* or *Ratings & Reports*. These portfolios offer another convenient starting point for selecting stocks for inclusion in your portfolio.

On an ongoing basis, we provide additional special stock screens and a wealth of economic and market information in *Selection & Opinion*. The screens go beyond those included weekly in the *Summary & Index* and often provide a different or unique investment approach. These features are critical in providing new and interesting investment ideas down the road.

## IV: RESEARCHING A STOCK USING THE VALUE LINE PAGE

A sample Value Line report is included at the back of this guide. The numbers below make reference to the sample page.

To start studying a stock, we suggest that you concentrate on various features found on every company page of *Ratings & Reports*. Begin by using the Timeliness™, Safety™ and Technical ranks that appear in the upper left corner of each page (item 1). Next, look at the analyst’s commentary in the bottom half of each report (item 13). Then review our various forecasts for financial data.



Estimated financial data is shown on the right side (bold italic print) of the Statistical Array (item 12). Growth rates are in the Annual Rates box (item 17). A stock's 3- to 5-year Target Price Range is on the right-hand side of the graph (item 10), and 3- to 5-year stock price Projections are in the projections box (item 19). Finally, review the historical financial data appearing in the left side of the Statistical Array (item 18). Illustrations and more details follow.

## Value Line Ranks

(see item 1 on the sample page)

### Timeliness

<b>TIMELINESS</b>	<b>3</b>	Lowered 2/23/24
<b>SAFETY</b>	<b>1</b>	New 7/27/90
<b>TECHNICAL</b>	<b>4</b>	Raised 9/27/24
<b>BETA</b>	.75	(1.00 = Market)

*Sample Ranks Box*

The Timeliness rank is Value Line's projection of the expected price performance of a stock for the coming six to 12 months relative to our stock universe. Stocks

ranked 1 (Highest) or 2 (Above Average) are predicted to outperform the Value Line universe over time. Stocks ranked 3 are likely to be average performers. And those ranked 4 (Below Average) or 5 (Lowest) are expected to underperform.

At any one time, there are 100 stocks ranked 1; 300 ranked 2; 300 ranked 4; 100 ranked 5; of course, the remainder of stocks fall into rank 3, the largest group.

### Safety

The Safety rank is our measure of the total risk of one stock compared to all others in our stock universe. As with the Timeliness rank, Value Line ranks each stock from 1 (Highest) to 5 (Lowest). However, unlike the Timeliness rank, the number of stocks in each category from 1 to 5 may vary. The Safety rank is derived largely from two measurements which are found in the Ratings box, on the lower right hand corner of each page (item 14): a Company's Financial Strength and a Stock's Price Stability. Financial Strength is a measure of a company's financial condition, and is reported on a scale of A++ (Highest) to C (Lowest). The largest companies with

<b>Company's Financial Strength</b>	<b>A++</b>
<b>Stock's Price Stability</b>	<b>100</b>
<b>Price Growth Persistence</b>	<b>70</b>
<b>Earnings Predictability</b>	<b>95</b>

*Sample Financial/Stock Price Data*

the strongest balance sheets typically earn the highest scores. Price Stability is based on a ranking of the standard deviation (a measure of volatility) of weekly percent changes in the stock price over the years, and is reported on a scale of 100 (Highest) to 5 (Lowest) in increments of 5. Generally speaking, stocks with Safety ranks of 1 or 2 are most suitable for conservative investors.

A stock's Price Growth Persistence and a company's Earnings Predictability are also included in the Ratings box. Price Growth Persistence is a measure of the consistency of stock price growth, relative to other equities. Over a long period of time. We caution that a trend of stability can change significantly. Earnings Predictability is a statistical measure of the reliability of an earnings forecast.

### Technical

The Technical rank is primarily a predictor of a stock's short term (three to six months) relative price change. It is based on a proprietary model which examines 10 relative price trends for a particular stock over different periods in the past year. It also takes into account the price volatility of each stock. The Technical rank ranges from 1 (Highest) to 5 (Lowest) as well. At any one time, about 100 stocks are ranked 1.

### Beta

Beta is a measure of the volatility of a stock relative to the overall stock market (looking to the New York Stock Exchange Composite Index) and is calculated by Value Line. A Beta of 1.00 suggests that a stock will move up and down roughly in lock-step with the market, so that a 3% increase or fall in the broader market would likely be accompanied by a similar percentage move in the stock. A Beta higher than 1.00 means a stock tends to be more volatile than the market, while a Beta lower than 1.00 suggests the stock's price fluctuations will be more muted in relationship to the broader market.

## 18-Month Target Price Range

Low-High      Midpoint (% to Mid)

\$147-\$207      \$177 (5%)

*18-Month Target Price Range*

### 18-Month Target Price Range

The 18-Month Target Price Range seeks to predict a stock's price over an 18-month horizon (from today) in terms of a range. In addition to the high and low values of the range, the percentage difference between the recent stock price and the midpoint of the range is provided. The percentage may be thought of as the most likely potential profit (or loss). The larger the percentage, the greater the possible price appreciation. The quantitative formula behind the 18-month range includes a number of variables, such as analyst estimates. The method used is unique and proprietary, and includes recent stock-price performance, as well as per-share sales, earnings, cash flow, and book value results.

The 18-month Target Price Range is located in the upper left hand corner of each individual stock report. The story told here may well differ from that highlighted by the Timeliness rank and/or 3- to 5-year Target Price Range and should be especially useful for those with an intermediate investment horizon.

The median for all stocks covered in *The Value Line Investment Survey* can be found on the front cover of the weekly *Summary & Index* for comparison purposes. The example provided shows that the 18-month price appreciation potential is below that of the Value Line median (illustrated on page 1).

### Industry Timeliness (Industry Rank)

Value Line also publishes ranks which show the expected performance of each industry, relative to the others. These ranks are updated weekly and published on the front cover and on page 24 of the *Summary & Index*. They also appear at the top of each Industry Report in *Ratings & Reports*.

### Analyst's Commentary

Many readers think our commentary (item 13) is the most important section of the page. In the commentary, the analyst discusses their expectations for the company, and its stock, over the near and long term. There are times when the raw numbers don't tell the full story. The analyst uses the commentary to explain the forecast. The commentary is also particularly useful when a trend is shifting, or a change is about to occur. As an example, a stock may have a below average Timeliness rank but the analyst thinks earnings could turn around in the future. In this case, the analyst may use this section to explain why they think conditions are likely to get better, thus giving the subscriber more insight into what is happening and why.

**Johnson & Johnson continues to perform well.** Continuing operations' (excludes the divested Consumer Health business) June-period sales grew 4.3% year over year, to \$22.4 billion. However, it rose 6.6% in constant currency. By further excluding COVID-19 vaccines, sales grew 7.2%. The Innovative Medicine (IM) segment realized sales growth, excluding COVID-19 vaccines, of 8.8%. The unit's sales benefited from the continued strength of key drugs. MedTech sales rose 4.4%, aided by the uptake of new products and global procedure growth. It also gained from the Shockwave Medical and Abiomed acquisitions, and the electrophysiology portfolio's 13.4% sales rise. The operating margin expanded slightly, as the impacts of a less-favorable product mix in IM and higher selling and marketing costs were outweighed by lower R&D spend. Share earnings rose 10.2%, to \$2.82, from \$2.56 (continuing operations). **Management lifted its 2024 revenue outlook.** With its takeover of Shockwave, JNJ now sees operational sales (excluding COVID-19 vaccine sales and currency impact) of \$89.2 billion-\$89.6 billion, up from

\$88.7 billion-\$89.1 billion. Recently, it acquired Proteolix for investigational drugs to treat immune-mediated diseases (e.g., atopic dermatitis and asthma) and Yellow Jersey Therapeutics to gain an investigational drug for atopic dermatitis. We do not see near-term revenue contributions from these additions, as their products are in development.

**But it lowered its bottom-line forecast.** Leadership's earnings forecast declined to \$10.00-\$10.10 per share, from \$10.60-\$10.75. While net income would normally gain from operational improvements, the costs related to the transactions are expected to impact the second-half operating margin. The effective tax rate also rises. In August, JNJ announced it will acquire V-Wave, which makes heart implants, later this year. While leadership sees 2024 earnings further diluted from this acquisition, our estimates will remain unchanged until the deal closes.

**Johnson & Johnson shares are ranked Highest (1) for Safety.** But the long-term total return potential is slightly below the Value Line median.

Phillip M. Seligman      September 27, 2024

*Sample Analyst's Commentary  
(Also see item 13 on the sample page)*

### Value Line Financial Data

In the Statistical Array (in the center of the report where most of the numbers are), Value Line provides both financial projections (item 12) and historical data (item 18).

### Financial Estimates

Our analysts carefully review SEC filings, company news, industry trade journals, and macroeconomic data, then focus on market dynamics and industry trends in their analysis. Many will derive the numbers in the Array (item 12) and Quarterly Projections (item 16) from

carefully curated financial models for each company stock. Forward-looking estimates are presented in bold italics.

## Historical Financial Data

Many readers rely on the data in the Statistical Array (item 18) for their own analysis. They, in particular, use the historical data to evaluate how a company has performed over the long term. It's worth pointing out that while all of the figures are important, readers may focus primarily on certain data depending on their investment goals.

The numbers are very helpful in identifying trends. For example, a review of sales figures is useful in estimating the amount of revenue a company will bring in. The operating or net profit margins show how sales filter to the bottom line (earnings). Many readers also check the percentages near the bottom to see if the Return on Total Capital or the Return on Shareholders' Equity has been rising, falling or remaining about the same.

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	VALUE LINE PUBL. 2/27-29
23.02	22.47	22.40	23.87	24.19	25.28	26.71	25.44	26.55	28.50	30.54	31.17	31.37	35.67	38.33	35.38	37.00	38.45	Sales per sh. A
5.70	5.69	5.92	6.35	6.48	7.00	7.20	6.65	7.50	7.64	8.11	8.82	9.32	11.00	11.37	11.70	11.43	12.20	"Cash Flow" per sh. A
4.87	4.83	4.78	5.00	5.10	5.52	5.70	5.48	5.93	6.41	6.18	6.88	6.93	8.80	10.15	9.82	10.00	10.70	Earnings per sh. A
1.80	1.83	2.11	2.25	2.40	2.50	2.70	2.55	3.15	3.32	3.54	3.75	3.98	4.19	4.45	4.70	4.94	5.20	Div. Dis. Decl'd per sh. C
1.11	.86	.81	1.06	1.06	1.29	1.53	1.45	1.19	1.22	1.36	1.50	1.29	1.30	1.51	1.80	1.85	1.90	Capl. Spending per sh. D
15.35	18.37	20.68	20.95	23.30	26.35	26.06	25.83	28.02	22.43	22.44	22.59	21.04	28.19	29.39	29.57	31.43	35.55	Book Value per sh. E
2782.7	2754.3	2798.7	2724.4	2778.5	2809.7	2785.3	2755.0	2785.5	2802.5	2802.3	2802.5	2802.5	2805.7	2813.4	2807.7	2805.7	2806.0	Common Shs. Outst'd. F
14.3	12.5	13.1	12.7	15.1	15.1	17.7	16.2	19.1	23.9	16.3	15.6	16.2	16.9	17.0	16.2	16.2	16.2	Relative P/E Ratio
86	83	83	83	88	88	83	92	100	120	88	83	83	81	88	90	90	90	Avg. Ann'd Div'd Yield
2.6%	3.3%	2.4%	3.3%	3.8%	3.0%	2.7%	3.0%	2.9%	2.9%	2.7%	2.8%	2.7%	2.5%	2.6%	2.5%	2.5%	2.5%	
CAPITAL STRUCTURE as of 6/30/24																		6850
Total Debt \$41,488 mil. Due in 5 Yrs \$6,843 mil.																		3100
LT Debt \$31,646 mil. LT Interest \$510 mil.																		2007
LT Debt % of Capital																		28.6%
Leases, Unamortized Annual Amort. \$12.34																		17.8%
Preferred Stock None																		25.5%
Common Stock 2,407,243,687 shares as of 7/19/24																		23.4%
MARKET CAP: \$402 billion (Large Cap)																		48%

Sample Statistical Array

## Annual Rates Of Change

The Annual Rates box (item 17) shows the compound annual growth percentages for sales, cash flow, and other items for the past 5 and 10 years and also Value Line's projections of growth for each item for the coming 3 to 5 years. These numbers can also indicate important company trends. (Specific estimates for various data items for three to five years in the future can be found in bold italicized type in the far right hand column of the Statistical Array.)

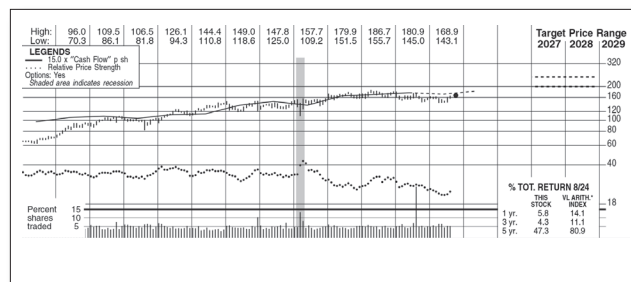
ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '21-'23 to '27-'29
Sales	4.0%	4.5%	3.0%
"Cash Flow"	5.5%	7.0%	3.5%
Earnings	6.5%	9.0%	3.5%
Dividends	6.5%	6.0%	5.0%
Book Value	2.0%	4.0%	9.5%

Sample Rates Box

## 3- to 5-year Target Price Range and Projections

In the upper right-hand section of our Price chart/graph is the 3- to 5-year Target Price Range (item 10). The range is based on our earnings projection for that period, multiplied by the estimated price/earnings ratio in the Statistical Array. The width of the high-low range generally depends on the stock's Safety rank. A stock with a high Safety rank has a narrower range, one with a low rank, ordinarily a wider one.

In the left hand column of each report, we include our 3- to 5-year Target Price Range (item 19) projections. There you can see the potential high and low average prices we forecast, the percentage price changes we project, and the expected compound annual total returns (price appreciation plus dividend growth). To make these calculations, analysts compare the expected prices for the next three to five years (as shown in the Target Price Range and Projections box) with the recent quotation shown at the top of the report (item 5).



Sample Target Price Range

Investors whose primary goal is long-term price appreciation should study the 3- to 5-year projections carefully and choose stocks with above-average capital gains potential. For comparative purposes, you can find the Estimated



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Median Price Appreciation Potential for all stocks on the front page of the *Summary & Index*.

## **V: EXAMINING A VALUE LINE PAGE IN MORE DETAIL**

In the following section, we are going to examine a Value Line page, with the objectives of interpreting the array of statistical data presented and weighing the data and the accompanying comment against your needs. We have chosen a report on Johnson & Johnson, the developer and manufacturer of a broad range of products in the healthcare field. The company is also a member of the Dow Jones Industrial Average.

### **Putting Data in Perspective**

Looking at the top of the page, we can see that Johnson & Johnson's stock price in February 2023 was \$162.00 a share (item 5 on the sample page). By itself, the stock price means very little. In the line below the price, annual high and low prices for each year from 2012 through 2023 are indicated. Below the high and low annual prices is a price chart (graph) that shows monthly price ranges for essentially the same period, along with other useful information that we will discuss below.

At the current quotation, is the stock undervalued, overvalued or fairly valued? The fact that the "cash flow" line is above the price of the stock indicates that it appears to be slightly undervalued.

**Price-Earnings Ratio**—This is probably the most widely used measure of stock valuation. Value Line shows a variety of P/E ratios on every company page, as discussed below:

The P/E ratio on the very top of the Value Line page (item 6) is calculated by dividing the recent price of the stock by its 12-month earnings (including one quarter of actual earnings plus three quarters of estimated earnings).

The Relative P/E ratio (item 8) compares the P/E of one stock with the median of estimated P/E ratios of all stocks under Value Line review. As such, a relative P/E of more than 1.00 indicates that a stock's P/E ratio is currently higher than that of the Value Line universe.

The Trailing P/E ratio (item 7) is calculated by dividing the recent stock price by the past 12 months of actual (reported) earnings. This figure is often reported in newspapers and financial web sites.

The Median P/E ratio (item 7) is the average annual P/E ratio of a stock over the past 10 years, with certain statistical adjustments made for unusually low or high ratios.

The Average Annual P/E ratio (items 12 and 18) is calculated by dividing the average price for each year by the actual reported earnings for the same year and is shown in the Statistical Array.

The Relative (Annual) P/E ratio (items 12 and 18) is calculated by dividing the Average Annual P/E of a stock with the Average Annual P/E of all stocks under Value Line review in the same year.

To gauge the significance of the stock's recent value, the reader should look at the price in relation to a variety of data. As far as P/Es are concerned, the current P/E ratio and relative P/E ratio for Johnson & Johnson's stock, are below those of most stocks in the Value Line universe.

Low P/E ratios may mean that the stock is undervalued, unless there are factors indicating that there is some kind of operational issue that is depressing the equity's valuation. Is this the case with Johnson & Johnson? It seems as though the investment community has some concerns about pending lawsuits and the effects that potential settlements and/or legal costs will have on the company's bottom line and is also trying to price in the healthcare giant's planned split into two entities. Management is planning to spin off the Consumer Health unit (roughly 15% of overall sales). Johnson & Johnson's relative P/E ratio is 0.93 (item 8), a lower valuation than that found in the average stock followed by Value Line.

The Dividend Yield (item 9) shows the expected return from cash dividends on the stock over the next 12 months, as a percentage of the recent price. Johnson & Johnson's yield of 2.8% is above the median of all dividend-paying stocks in the Value Line universe. (The median is shown

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each week on the cover of the *Summary & Index* section.) Value Line's analyst thinks that Johnson & Johnson stock dividends will increase over the next three to five years. Many investors view regular increases in a dividend very positively.

### The Price Chart

Next, look at Johnson & Johnson's price chart (or graph) at the top of the report (item 11). The first thing one should note is the price history, shown by the small vertical bars in the center of the graph, which show the high and low monthly prices for the stock (adjusted for any subsequent stock splits or dividends). Looking at the bars, you can see that the stock price steadily climbed until early 2018, then experienced a rather choppy period, until moving higher at the end of 2020, into 2021.

Now review the Cash Flow line, the solid line running from 2011 through the middle of 2022 (more fully described below). The dashed line from mid-2022 to mid-2024, which is an extension of the Cash Flow line, is Value Line's projection of the line for those years. For most of the past 12 years, Johnson & Johnson's stock has traded within reach of the Cash Flow line.

Finally, note the **Relative Price Strength** line (item 4), the faint small dotted line, toward the bottom of the chart. This shows the relative performance of Johnson & Johnson stock versus the entire universe of Value Line stocks; when the Relative Price Strength line is rising, it means a stock is outperforming the universe. When it is falling, a stock is lagging the Value Line universe.

At the very bottom of the chart, we show monthly trading volume (item 11) as a percentage of total shares outstanding. The Legends box (item 2) in the upper left of the price chart contains, among other things, information on the cash flow multiple, a record of stock splits, and whether or not there are options traded.

The **Target Price Range** (item 10) in the upper right corner of the price chart indicates the Value Line forecast for the stock's price range over the 3- to 5-year period.

This box should be viewed in conjunction with the Projections box (item 19) near the top left-hand corner of the page, which also gives our 3- to 5-year projections. For Johnson & Johnson, we expect the average price to reach between 225 and 275, which would be between 40% and 70% above the level in February 2023.

Just above the Projections box is a section containing the Value Line Timeliness, Safety, and Technical ranks, plus a Beta calculation (item 1). Johnson & Johnson's Beta of 0.80 reveals that this stock is likely to move somewhat less than the overall market. If you are looking for stability, a stock like Johnson & Johnson, with a below average Beta, is a good option.

### The "Cash Flow" Line

The price chart at the top of the Johnson & Johnson page contains, among other things, a monthly price history for the stock (the vertical bars) overlaid by a solid line that we call the "cash flow" line (sometimes also called the "Value Line") (item 3). To plot the line, we multiply cash flow per share (net income plus depreciation and amortization less preferred dividends divided by the number of shares outstanding at the end of the year) by a number (multiple) determined by our analyst — the multiple is noted in our graph legend (item 2). The goal is to create a line that closely matches the stock price history and will ultimately extend to our projected 3- to 5-year Target Price Range. In the case of Johnson & Johnson, the "cash flow" multiple is now 15.0. (The multiple can, and often does, change over time.) Stocks tend to trade at or near their "Cash Flow" line.

### Historical Results and Estimates

When available, our historical array includes per-share data dating back up to 17 years. The historical data (item 18) appear on the left side and are presented in regular type. We also project statistical data (item 12) for the current fiscal year, next fiscal year, as well as three to five years into the future. These projections are presented in bold italics.

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### Highlights from the Statistical Array (items 12 and 18):

**Revenues per share** (first line), or how much revenue the company generated from its operations, divided by its share count.

**Cash flow per share** (second line), as commonly used by analysts, is the sum of reported earnings plus depreciation, less any preferred dividends, calculated on a per-share basis. It is an indicator of a company's internal cash-generating ability—the amount of cash it earns to expand or replace plant and equipment, to provide working capital, to pay dividends, or to repurchase stock. Johnson & Johnson's cash flow per share has advanced sharply since 2007.

**Earnings per share** (third line) are shown by Value Line as they were reported to stockholders, excluding non-recurring items and adjusted for any subsequent stock splits or stock dividends. Value Line will usually use diluted earnings per share. This metric includes dilution (stemming from options or warrants, etc.) rather than relying on the weighted average of outstanding shares. Details, including nonrecurring items excluded from our earnings presentation are included in the footnotes section (item 15).

Johnson & Johnson's earnings per share increased steadily between 2007 and 2022.

**Dividends Declared per share** (fourth line). Directors of growth-oriented companies often prefer to pay small or “token” dividends, or none at all, so they can reinvest earnings in the business. Johnson & Johnson, a more mature company, paid 42% of its earnings in dividends in 2021 and invested the remainder in the business; and the percentage is likely to remain in the mid-40's over the next few years.

**Capital Spending per share** (fifth line) is the amount that a company spends on new plants and equipment, divided by its shares outstanding including funds used for acquisitions of other companies which most analysts do not use in their projected budgets.

**Book Value per share** (sixth line) is common shareholders' equity determined on a per-share basis. It includes both

tangible assets, like plant and receivables and inventories, as well as intangibles, like the value of patents or brand names, known as “goodwill.” Any significant intangibles will normally be indicated in a footnote (item 15). If all assets could be liquidated at the value stated on the company's books, all liabilities such as accounts payable, taxes, and long-term debt paid, and all preferred stockholders compensated, the book value is what would be left for the common stockholders.

The number of **Common Shares Outstanding** (seventh line) is also listed in the Statistical Array. Sometimes net income rises, but earnings per share do not, because the number of shares outstanding has increased. This may happen because a company is issuing stock to pay for acquisitions or to fund internal growth. As a result, sales and profits may soar, while per-share sales and earnings lag. On the other hand, when cash-rich companies buy their own shares, earnings per share can rise even if net income is stable, or decreasing.

The **Average Annual P/E Ratio** (eighth line) shows Johnson & Johnson's average annual P/E was at unusually high levels in 2017 and 2018 when consumer staple stocks were in favor; it has narrowed a fair amount over the past couple of years, as demand for technology stocks has skyrocketed.

The **Relative P/E Ratio** (ninth line) shows how the stock's price-earnings ratio relates to those of all stocks in the Value Line universe. Johnson & Johnson's relative P/E of 0.93 in February 2023 was below that of the typical stock in the Value Line universe. The Value Line analyst thinks it will be average in the 2026–2028 period.

The **Average Annual Dividend Yield** (10th line) is of special interest to income-oriented investors, many of whom are more concerned with a stock's yield, rather than its appreciation potential. Income-oriented investors should look for stocks with higher than average yields — shown each week in the center box of the front cover of the *Summary & Index*, but they should also look at dividend trends over time. Steady increases are attractive to many investors. Investors should also look carefully at

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a company's free cash flow to ensure that the company will be able to continue to pay the dividend. The historical payment dates are included in the Footnotes (item 15). And dividends are recorded on the bottom left of the page (item 16).

### Company Financial Data

The **Sales or Revenues** figure (11th line) is the money produced (generated) calculated by multiplying the value of the product and services provided by the number of units sold. Johnson & Johnson's revenues have grown steadily over the past several years.

The **Operating Margin** (12th line) indicates what percentage of sales is being converted into operating income. (Operating income is total sales minus the cost of goods sold and selling, general and administrative expenses. It is also referred to as EBITDA, or earnings before interest, taxes, depreciation, and amortization.) At Johnson & Johnson, this figure has increased handsomely over the past decade, but is expected to face some headwinds over the coming three to five years.

**Depreciation** (13th line) is the reduction in the accounting value of a company's capital assets (property, plant, & equipment). This figure reflects the aging of a company's plant and equipment.

**Net Profit**, or income, (14th line) is the amount the company earned after all expenses including taxes, excluding nonrecurring gains or losses and the results of discontinued operations. Johnson & Johnson's net profit has grown considerably since 2013.

Johnson & Johnson's **Income Tax Rate** (15th line) was hovering around the 15% mark at the time of the report.

**Net Profit Margin** (16th line) shows net income as a percentage of sales (or revenues). Here, the trend is the most important thing, and rising margins are favorable.

It is often worthwhile to compare the net margin with the operating margin. Usually the two metrics move in line with one another, though not always. Depreciation charges, interest expense, income taxes, and other costs are deducted from (and other income added to) operating income in the determination of net profit. Where there is a disparity in the trends of the net and operating margins, it may be worth taking a second look. (If depreciation, interest charges, or tax rates move sharply in any direction, there will be an impact on net profits, and it would be worthwhile to try to determine why the change occurred.)

**Working Capital** (17th line), the company's current assets less current liabilities, indicate the liquid assets available for running the business on a day-to-day basis. The higher a company's sales, the more working capital it typically has and needs. But we caution that a number of large companies with steady revenue streams no longer believe large amounts of working capital are necessary. In those cases, a negative working capital may be perfectly acceptable because a company can meet normal operating expenses from consistent cash receipts.

**Long-term Debt** (18th line) is debt obligations (excluding short-term debt due in the coming year). In the case of Johnson & Johnson, the amount is quite low relative to total capital.

**Shareholders' Equity** (19th line), also known as net worth, is the total stockholders' interest (preferred and common) in the company after all liabilities have been deducted from the total assets. All intangible assets such as goodwill, patents, and, sometimes, deferred charges are included in shareholders' equity — and often noted in the footnotes (item 15). Johnson & Johnson's equity has grown appreciably over the years, primarily from retained earnings.



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**Return on Total Capital** (20th line) measures the percentage a company earns on its shareholders' equity and long-term debt obligations. When a company's return on total capital goes up, there should also be an increase in the return on shareholders' equity (see below). If not, it simply means that the company is borrowing more and paying interest, but not earning more for the stockholders on their equity in the company's assets. Unless a company can earn more than the interest cost of its debt over time, the risk of borrowing is not worthwhile.

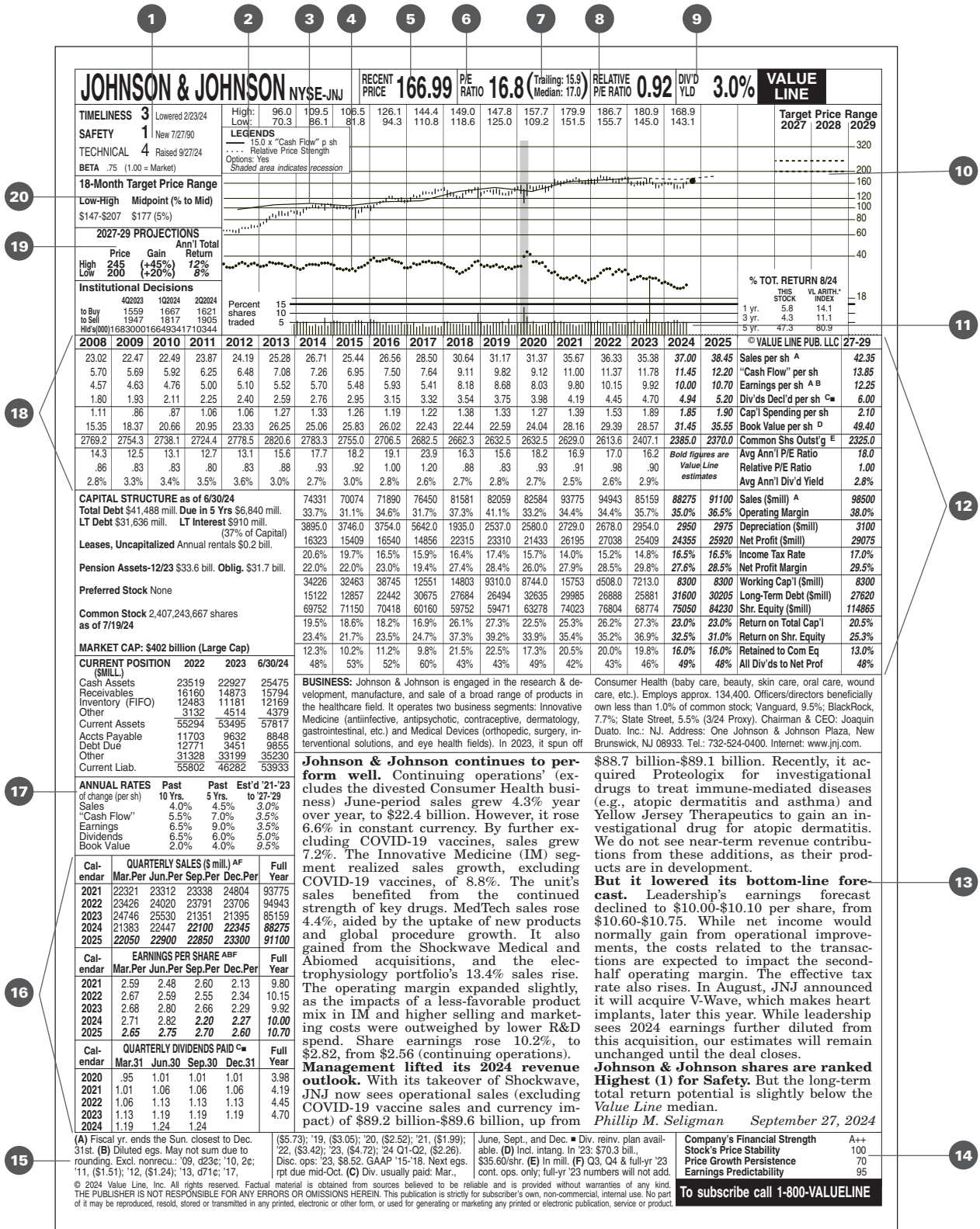
**Return on Shareholders' Equity** (21st line) reveals how much has been earned (in percentage terms) every year for the stockholders (common and preferred). Higher figures are usually desirable, often indicating greater productivity and efficiency. Johnson & Johnson's percent earned on net worth has grown over time, but we think it will head lower out to 2026-2028.

Trends in both this ratio and the return on total capital — two key gauges of corporate performance — say a great deal about the skill of management.

**Retained to Common Equity** (22nd line) also known as the "plowback ratio," is net income less all dividends (common and preferred), divided by common shareholders' equity and is expressed as a percentage. It measures the extent to which a company has internally generated resources to invest for future growth. A high plowback ratio and rapidly growing book value are positive investment characteristics.

**All Dividends to Net Profit**, or "payout ratio," (23rd line) measures the proportion of a company's profits that is distributed as dividends to all shareholders—both common and preferred. Young, fast-growing companies often reinvest most of their profits internally. Mature companies usually pay out a large share of earnings. Johnson & Johnson paid out 42% of its profits in the form of cash dividends in 2021. By way of comparison, the typical large-cap company in the Value Line universe usually pays out about 30%–35% of its profits in dividends, although exceptions exist.

# SAMPLE RESEARCH REPORT



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- 1 Value Line Ranks — the rank for Timeliness; the rank for Safety; the Technical rank. Beta, the stock's sensitivity to fluctuations of the market as a whole, is included in this box, but is not one of our proprietary ranks.
  - 2 The Legends box contains the “cash flow” multiple, the amounts and dates of recent stock splits, and an indication if options on the stock are traded.
  - 3 The Cash Flow line — reported earnings plus depreciation (“cash flow”) multiplied by a number selected to correlate the stock's 3- to 5-year projected target price, with “cash flow” projected out over the same period.
  - 4 Relative Price Strength describes the stock's past price performance relative to the Value Line (Arithmetic) Average of approximately 1,700 stocks. (A rising line indicates the stock price has been rising more than the Value Line universe.)
  - 5 Recent Price — Price as of the date listed on page 2 under Index to Stocks of this issue's *Summary & Index*
  - 6 P/E Ratio — the recent price divided by the latest six months' earnings per share plus earnings estimated for the next six months.
  - 7 Trailing and Median P/E — the first is the recent price divided by the sum of reported earnings for the past four reported quarters; the second is an average of the price/earnings ratios over the past 10 years.
  - 8 Relative P/E ratio — the stock's current P/E divided by the median P/E for the approximately 1,700 stocks under Value Line review.
  - 9 Dividend Yield — cash dividends estimated to be declared in the next 12 months divided by the recent price.
  - 10 3- to 5-year Target Price Range — the range in which a stock price is likely to trade in the 3- to 5-year projection period. Also shown in the “Projections” box on the left.
  - 11 The percent of shares traded monthly — the number of shares traded each month as a % of the total outstanding.
  - 12 Statistical Array — Value Line estimates and projections appearing in the area on the right side are in bold italics.
  - 13 Analyst's Commentary — A 300–400 word report on recent developments and prospects — issued every three months on a regular schedule. Supplementary reports are issued when there is important news.
  - 14 Value Line Ratings for Financial Strength, Price Stability, Price Growth Persistence, and Earnings Predictability. (See Glossary [valueline.com](http://valueline.com) for definitions.)
  - 15 Footnotes explain a number of things, such as the way earnings are reported, whether basic or diluted.
  - 16 Quarterly Sales are shown on a gross basis. Quarterly earnings on a per-share basis (estimates in bold type). Quarterly Dividends Paid are actual payments. The total of dividends paid in four quarters may not equal the figure shown in the annual series on dividends declared in the Historical and Statistical Arrays. (Sometimes a dividend declared at the end of the year will be paid in the first quarter of the following year.)
  - 17 Annual Rates of Change (on a compound per-share basis). Actual for each of the past 5 and 10 years, estimated for the next three to five years.
  - 18 Historical Array — historical financial data appear in regular type.
  - 19 Projected stock price in 3 to 5 years. Also, the total expected percent gain/loss before dividends and the Annual Total Return (percent including dividends).
  - 20 18-Month Target Price Range — A quantitative measure that seeks to predict a stock's price over an 18-month horizon in terms of a range.

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